

(Summary translation)

(Economic Digest Interview) Chiho acquired German peer hopefully to bring new technology to China

In recent years, apart from pursuing economic growth, China also highly concerned with environmental protection. In July 2017, the State Council announced a further strict standard for the imported garbage from aboard. Mr. Qin Yongming, Chairman of Chiho Environmental Group Limited ("CEG" or the "Group" ; Stock Code: 00976.HK), believed that this measure would in turn compel the foreign importers to improve the quality of waste when exporting to China. As the Group completed the acquisition of the entire share capital of Scholz Holding GmbH ("Scholz Holding" and together with its subsidiaries, "Scholz Group"), a world leading mixed metal recycling giant in Germany, the Group would be well endowed with advanced waste recycling technology and operation mode from a highly industrialized country and thereby elevated its competitiveness.

CEG completed the acquisition of Scholz Group at the end of 2016. The

Group recorded a substantial increase in revenue, gross profit and profit for the period in the first half of 2017, which was mainly attributable to the financial performance of Scholz Group being fully accounted in this period. The revenue was approximately HK\$8,802 million, representing an increase of approximately 4.8 times compared to the same period of 2016. The Company achieved profit turnaround to HK\$198 million attributable to owners of the company, as compared to the loss attributable to owners of the Company of HK\$170 million in the same period of 2016.

Meanwhile, its Greater China segment recorded adjusted operating profit of HK\$130 million, making a turnaround from the adjusted operating loss of HK\$54 million in the same period of 2016.

Chiho Environmental Group Limited Interim Results Overview

Unit: (in 100 million)

for the six months ended in 30 June	2017	2016
Turnover	88.02	15.13
Gross Profit	10.45	0.66
Net profit/loss	1.98	-1.7
Net profit/loss per share (HKD 1)	0.122	-0.106

Four Major benefits arising from the acquisition for Scholz:

Mr. Qin Yongming mentioned four major benefits brought about by the acquisition of Scholz.

Firstly, as the acquisition completed, the Group could possess more than 300 yards including metals processing facilities in Europe, North America and Mexico. The recycling channels for metal resources could thereby be further extended in order to attain vertical integration.

Secondly, the Group now has presence in more than a dozen countries in Europe, North America and Mexico, which facilitate more convenient access to market information and understanding of changes in market demand for scrap metal.

Thirdly, the group could assimilate and learn advanced technology and operation model from Scholz Group. Mr. Qin Yongming further pointed out that Scholz had established admirable relations with major industrial enterprises in Europe and the United States, which include BMW of

Germany and Ford of the United States, therefore the group can leverage on relationship with established large multinational companies to grow the Asian scrap business.

Intended to recycle steel scrap from steel mills in China

Scholz is equipped with the advanced technology to maintain approximately 99.6% recovery on dismantling of used cars so that various types of waste parts can be further applied for recovery and re-processing. On the contrary, the peer competitors in China can only achieve 60% to 70% on disassembling of the entire used car. If the technology can be used in the Group's processing plants for scrap metal in China, this should be able to bring about noticeable increase to the gross profit margin of the Group's China business. In addition, Scholz has mature management teams around the world, who has rich experience to contribute to Chiho's scrap metal processing operations in China.

At present, Chiho has various scrap metal processing plants located in different parts of the Greater China region. While coping with the policy

restriction imposed by the central government, the Group finds it necessary to adjust its existing developmental strategy. The Group will step up efforts in recycling for scrap metal. Taking the Tangshan project as an example, there is a large number of industrial entities in the area which results in large quantity of scrap steel, therefore offering plenty business opportunities for the Group.

This news report is extracted from Economic Digest.